

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of

Price Cap Performance Review  
for Local Exchange Carriers;  
Treatment of Video Dialtone Services  
Under Price Cap Regulation

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CC Docket No. 94-1

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REPLY COMMENTS

U S WEST Communications, Inc. ("U S WEST"), through counsel and pursuant to the Federal Communications Commission's ("Commission") Further Notice of Proposed Rulemaking,<sup>1</sup> hereby submits its reply to comments regarding the application of price cap regulation to video dialtone (or "VDT") service.

U S WEST recommended that the Commission create a separate price cap basket for video dialtone if it subjects VDT service to price cap regulation.<sup>2</sup>

U S WEST advocated that a zero productivity offset be applied in calculating the price cap index for the VDT basket.<sup>3</sup> In reality, the use of a zero productivity offset assumes that VDT service will experience productivity gains equivalent to those of the U.S. economy as a whole. U S WEST noted that the Commission used a zero

<sup>1</sup> See In the Matter of Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1, Further Notice of Proposed Rulemaking, FCC 95-49, rel. Feb. 15, 1995.

<sup>2</sup> U S WEST's Comments, filed herein Apr. 17, 1995 at 12-13.

<sup>3</sup> Id. at 13-14.

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productivity offset in its cable price cap plan and that the use of any other rate would be purely speculative given the total absence of any historical record for VDT.

A majority of the commenters including the National Cable Television Association, Inc. ("NCTA"), Cox Enterprises, Inc. ("Cox") and the California Cable Television Association ("CCTA") supported the use of a zero productivity offset.<sup>4</sup> Their reasoning for adopting this position largely mirrored that of U S WEST. MCI Telecommunications Corporation ("MCI"), Southwestern Bell Telephone Company ("Southwestern Bell"), and General Services Administration ("GSA") advocate using productivity factors other than zero.<sup>5</sup> Southwestern Bell appears to pluck a 2.0 percent factor out of thin air. It offers no justification other than that 2.0 percent is the average of 4.0 percent (i.e., the minimum productivity offset in the Commission's interim local exchange carrier ("LEC") price cap plan) and zero (i.e., the productivity offset in the cable price cap plan).<sup>6</sup> GSA and MCI advocate using the same productivity offsets that are used in the existing price cap plan.<sup>7</sup> MCI's logic in support of its position is flawed. MCI correctly points out that there is no historical data for the Commission to use to derive estimates of productivity factors

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<sup>4</sup> NCTA at 9-11; Cox at 22; Bell Atlantic at 6; CCTA at 11 n.30; NYNEX Telephone Companies at 6; Ad Hoc Telecommunications Users Committee ("Ad Hoc") at 14; United States Telephone Association at 4; Rochester Telephone Corp. at 8; U S WEST at 12-13; Pacific Bell at 2; GTE Service Corporation at 19.

<sup>5</sup> BellSouth opposed the creation of a separate price cap basket and productivity offset for VDT service. However, if the Commission establishes a separate VDT basket, BellSouth advocates the use of a zero productivity offset for the VDT basket. See BellSouth at 10-11.

<sup>6</sup> Southwestern Bell at 5.

<sup>7</sup> MCI at 10; GSA at 4-5.

for VDT -- but MCI then incorrectly concludes that this provides a justification for using existing price cap productivity offsets.<sup>8</sup> None of these parties have offered a reasoned basis for using a productivity offset of other than zero for the VDT basket. The Commission is compelled to use a zero productivity factor given the comments of the parties and the total absence of a historical record from which to derive a productivity offset.

Ad Hoc supports the use of a zero productivity offset for VDT service, but claims that the Commission must adjust non-video dialtone productivity factors significantly upward to reflect future productivity gains from new broadband investments.<sup>9</sup> This is nonsense. Ad Hoc's logic fails for the same reason as MCI's. That is, there is no historical record to support raising LEC productivity offsets in anticipation of future productivity gains.

U S WEST believes LECs will experience productivity gains in the provision of telecommunications services as broadband networks are deployed. However, it is impossible to forecast with any certainty the timing and rate of these productivity gains. It is unlikely that any such productivity gains will occur at the same time as LEC broadband investments, as is implied by Ad Hoc's proposal. Furthermore, if the Commission adopts a rolling average approach to establishing productivity offsets as it has indicated it might in its Price Cap Review,<sup>10</sup> all productivity gains

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<sup>8</sup> MCI at 7, 10-11.

<sup>9</sup> Ad Hoc at 15-16.

<sup>10</sup> In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, FCC 95-132, rel. Apr. 7, 1995 ("Price Cap Review") ¶¶ 153-54, appeals

associated with the deployment of broadband networks will be reflected ultimately in the non-VDT price cap indices. Thus, for the above reasons, Ad Hoc's proposal should be rejected as unsupported and speculative.

### CONCLUSION

For the foregoing reasons, the Commission should employ a zero productivity offset if it establishes a separate price cap basket for VDT service.

Respectfully submitted,

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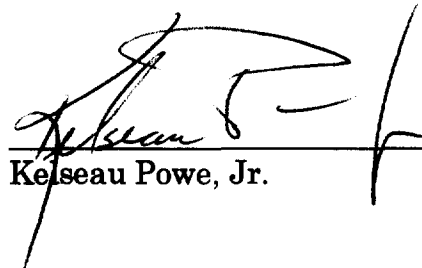
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May 17, 1995

## **CERTIFICATE OF SERVICE**

I, Kelseau Powe, Jr., do hereby certify that on this 17th day of May, 1995, I have caused a copy of the foregoing **REPLY COMMENTS** to be served via first-class U.S. Mail, postage prepaid, upon the persons listed on the attached service list.



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